Indonesian Archipelago up to the 19th Century

Very prosperous and very fertile
Everything is in order and well being...

This was how the Indonesian Archipelago was depicted prior to the influx of the Westerners. The following story will provide you with the meaning of the above Javanese proverb. Enjoy reading it.

Indonesian Archipelago prior to arrival of the Westerners

Before the Westerners began to arrive, the Indonesian Archipelago had developed into an international trade zone. There were then two international trade passages used by the traders, namely:

1. Overland trade passage or more popularly known as "the Silk Road" that began from mainland China through Central Asia, Turkistan up to the Mediterranean. This road also connects to the traditional roads used by the Indian desert caravan and was the oldest route linking China and Europe.
2. Trade passage via the sea that began from China through the South China Sea to the Malacca Strait, Calicut (India), then to the Persian Gulf via Syria up to Mediterranean or via the Red Sea up to Egypt towards the Mediterranean.

Through the sea trade route, the export commodities from the Indonesian Archipelago were distributed to the Indian market and Roman Empire (Byzantine) and then spread to the European vast territories. These export commodities comprised among others spices, yellow sandalwood, camphor and incense.

Since the old kingdom era (both Hindu-Buddhist and Islamic golden periods), the kings and sultans from those kingdoms posed significant influence to the trade sector. Not only were they responsible for the security and tax collecting, but they were often acted as the capital owners as well. In principle, the trade sector in the Indonesian Archipelago then was political and capitalistic. There were two kingdoms contributing a lot in boosting the foreign trade from the 7th to 15th centuries, namely Sriwijaya in Sumatra and Majapahit in Jawa. Both were Hindu and Buddhist kingdoms. Sriwijaya was one of the coastal kingdoms that relied on international trade for its economy. Thing kingdom enjoyed the international trade route linking China with Europe via the Malacca Strait.

From the 7th to 13th century, Sriwijaya grew and expanded into a trading center in the western part of the archipelago, especially after it managed to dominate and secured the trade route in and around the Malacca Strait. The kingdom obligated any merchant ship passing the Malacca Strait to dock in Sriwijaya port. As a result, this kingdom was frequently visited by the traders from Persia, Arab, India and China for exchange of commodities from their respective countries and the countries they passed by. These items were among others fabric, camphor, pearls, yellow sandalwood, spices, elephant tusks, cotton textile and woolly fabric, silver, gold, silk, crockery and sugar.

Apart from being a trade center, Sriwijaya had its own merchant ships which sailed to East Asia up to India and even reached Madagascar. However, the domination of Sriwijaya ships eroded when the kingdom had to sustain assaults from the Cola kingdom, India in the 11th century. Further in the 13th century, Sriwijaya's position was undermined by the kingdoms in East Java, particularly Singosari under Kertanegara who sent Pamalayu expedition up to Tumasik (now Singapore).

Ultimately Sriwijaya's existence disappeared after Majapahit sent its troops to this area. From 1293 to 1500, Majapahit reigned and was centered in (East) Java. It virtually replaced Sriwijaya's position. Under King Hayam Wuruk and Prime Minister Gajah Mada, Majapahit reached its grandeur. This kingdom was both agrarian and trading. Supported with its strong navy, Majapahit expanded its territory from Molucca Islands to North Sumatra. Its trading activities were not restricted to coastal trade and sailing, but expanded across the sea via Malacca towards the Indian Ocean.

At the same time, according to Marco Polo, there were two other kingdoms in Sumatra, namely Tumasik (now Singapore) and Samudra Pasai. The latter was an Islamic kingdom with strong political and economic influence and able to maintain its sovereignty over Malacca. Nevertheless, Pasai acknowledged the power of the Majapahit Hindu-Buddhist kingdom in Jawa as well as the Chinese Empire. As a trading center, Pasai developed intensive trading links with Gujarat, Bengal and coastal cities on the northern coast of Java. Apart from pepper, Pasai exported other commodities, such as silk, camphor and gold which were obtained from the interior parts of its territories. In terms of silk, the people in Pasai acquired their silk processing skill from the Chinese.

The trade era had sparked continuous need for currencies. The currencies in the form of silver, brass and tin were the most important commodities that flooded Asia, including the archipelago. These areas were more open to foreign traders and their currencies, though the native and local currencies, in particular gold coins were also made. A number of foreign currencies in circulation then were Chinese, Japanese, Indian and Persian coins.

From the 9th until the 13th century, a number of kingdoms such as Kediri, Aceh and Sulawesi had their own gold coins. The Bangka, Cirebon, Pontianak, Molucca Islands and Banten kingdoms owned tin, silver and brass coins. During this period, gold was used to measure value apart from becoming the item for saving and status symbol for a king. However long before this, the people had known money in rudimentary form used as a payment instrument, such beads in Bengkulu and Pekalongan, bracelet in Majalengka and South Sulawesi, *belincung* in Bekasi, *Moko* in East Nusa Tengara and shells in Papua.

The Chinese brass coins and local coins were made from tin. They were the first currencies mostly widely acceptable as the commerce began to flourish after 1400 (15th century). These Chinese coins were known as *cash* (Sanskrit), while the Portuguese called it *caixa*, particularly for the Chinese brass coins exported. The other European nations also called the coin *caixa*. The people in Java called it *picis*. The coins were round and small with a square hole in the center. The hole was purposely made to enable the coins tied in one bundle amounting to one thousand (*puon*), six hundred or other amounts commonly used then.

In June 1599, John Davis, a British seaman who was working for a Dutch ship reported that in Aceh the people used various payment instruments such as cash, gold, *cowpan* (*kupang*), *perdaw* dan *tayel* (*tahil*). He made a list of the currency rates prevailing in Aceh at that time as follows:

1600 cashes = 1 gold
400 cashes = 1 *kupang*
5 gold = 4 shilling sterling
4 gold = 1 *perdaw* (in Aceh it was called *pardu*)
4 perdaw = 1 tahil

The other sources cited that one tail (*tahil*) was equivalent to 16 gold (*dirham*). One Spanish Ringgit (Spanish Real) was equivalent to 16 gold (*dirham*)

European Development: The Origins of Banks

In 1453, the Ottoman Turks Dynasty under Sultan Muhammad the second (1451-1481) managed to reign Constantinople, the capital of the Roman Empire, Byzantine (East Roman Empire). From this day, the center of economic and political developments of the world from the 14th century up to 15th century was in the hands of the Ottoman Turks Empire. This new power could not wait dominating the strategic locations that were previously ruled by the Europeans, particularly Roman Empire-Byzantine.

The collapse of Roman-Byzantine had virtually halted the trade activities for the Europeans in the Mediterranean. The rulers in Ottoman Turks adopted the policy that restricted the European traders to operate in the territories. This condition downgraded the trading link between the East and Europe. As a result, the number of commodities needed by the Europeans was decreasing in the European market, particularly spices. This disadvantage sparked the European traders to look for an alternative route by directly exploring to the sources of the spices.

The explorations of the Westerners were pioneered by the Spaniard and Portuguese sailors followed by the Dutch, British and French. In addition to the fall of Constantinople, the European explorations were also attributed to the following reasons

1. The spirit to conquest other nations as a reprisal against the Islamic domination whenever they come across.
2. The success travel story of Marco Polo to the east world, to China by sea
3. The finding by Copernicus supported by Galileo declaring that the earth was round.
4. The discovery of a compass.

As a result, as from the 15th century and early 16th century, the European sailors managed to explore the vast oceans and reached newly found lands like America, Africa and Asia including the Indonesian Archipelago. From these days, the trading activities which had initially taken place in the Mediterranean were then shifted to a broader ocean, namely the Atlantic Ocean. Through such trade, the Spaniards, Dutch, and French people earned much profit from highly strategic trade centers in the territories under their control. Abundant of precious metal began to flood Europe, particularly via Spain, Portuguese, Holland and England.

From such trade earnings, in the 16th and 17th centuries many European countries successfully established their formats and identities and became national states with strong domestic marine position and administration system through their bureaucracy to consolidate their armed forces. The wealthiest countries became the most powerful nations as they were able to rule over their vast territories.

This fast trade development sparked the mercantilism embraced by the European states. Mercantilism was a method to take care of economic activities with the government intervention to grow capitalism in the early modern periods in Europe. This was later facilitated with the presence of banknotes and various forms of credit. These emerged as the business people were in urgent need of capital and currencies. Subsequently, this spirit encouraged colonialism and ancient imperialism.

As continuation of such development, at the end of the 18th century, the Western Europe began to witness the industrial revolution as a radical and accelerated change against human capability development to create and invent working equipment to increase their production output. As a result, the economy was undergoing an enormously fact changes, namely from agrarian economy to industrial one that employed machinery. The Industrial Revolution began in England and quickly spread to the European continent and ultimately to the rest of the world. Later on when the European nations were enjoying their industrial climax in the 19th century, modern colonialism and imperialism practices flourished.

In general, the industrial revolution posed enormous impacts to various aspects of human lives such as:

1. The emergence of massive industries.
2. The emergence of the bourgeois and the labor.
3. The emergence of urbanization characterized by the relocation of the people from the farming areas to the urban areas to work as industrial workers.
4. The emergence of modern capitalism where money plays a vital role.

The expansionism of the Europeans, trade and industrial revolution were strongly related to the government, corporate and banking issues, especially as the funding source for the commercial activities of European firms in their colonies. The modern banking embryo first appeared in Europe in the early 15th and 16th centuries although it did not constitute a central bank and lacked standard fiscal rate. In numerous cities which served as the trading centers, banking institutions were established, for instance in Barcelona (1401), Genoa (1404), Venice (1587), Milan (1593), Amsterdam (1609), Hamburg (1619) and London (1694).

The signs of the central bank's emergence began to show in the second half of the 18th century, namely when the King of England officially opened the Bank of England to serve as the Circulation Bank and bankers bank in the British territories in 1773. These steps were then followed by France when it appointed Banque de France (1800), Sweden appointed Riskbank (1809), and Holland appointed De Nederlandsche Bank (1814) as their Central Banks.

Indonesian Archipelago after the Arrival of the Westerners

Until the 10th century, the commercial sailing still relied on one uninterrupted route from east to west or the other way around. By then there seaports lacked the

necessary facilities to enable the ships to dock along the lengthy commercial route. However, from the 10th and 11th centuries, seaports called "emporiums" began to emerge. They were harbor cities with complete facilities for the sailors to repair their ships while being engaged in trade transactions. In each emporium, there were normally businessmen with huge capital who were able to provide credit facilities, warehouses, trading activities and ship lease or sales and purchase for trade expeditions.

The emergence of "emporium" system effectively facilitated the commercial sailing. Traders were no longer forced to take the entire route from east to west to market their merchandise. Instead, by taking one emporium only, their commodities would be carried by the other traders to distribute them to the emporiums in other areas. In this way, the emporium system had virtually shortened their trade route. A number of emporiums that sprang in that century were Aden and Mocha in the Red Sea; Muscat, Bandar Abas, and Hormuz in the Persian Gulf; Kambai and Kalikut in the Arab Sea; Statgaon in Bengal Gulf; Zaiton and Nanking in the China Sea and Malacca in the Malacca Strait.

In the 15th century, Malacca began to take over the position of Samudra Pasai in the international trade sector. Geographically, the position of Malacca was quite strategic and more advantageous compared to Pasai. Malacca was known as the gate to the archipelago situated in the crossroad of the eastern and western parts of Asia. Like Sriwijaya, Malacca did not produce their own crops or mine products, but imported from the other areas. However, with its strong diplomatic relations with a number of strong countries such as China, Siam (now Thailand) and Majapahit, the Malacca kingdom developed into the largest emporium in Asia. Moreover, after the Malacca rulers embraced Islam in 1414, more and more Islamic, Arabian and Indian traders began to be engaged in the trading activities in Malacca.

The speed development of Malacca was supported with the policies adopted by the rulers. They attempted to develop the bureaucratic system that could meet their duties in regulating the Malacca's economy. One of the important positions and strongly related to the trade in the seaport was the Harbormaster. In Malacca, each seaport was managed by for Harbormasters who had been directly elected by the foreign traders comprising various nationalities to take care of their respective interests. The Portuguese heard about this strategic position of Malacca who had successfully established a trading post in Goa, India. For this purpose, Affonso d'Albuquerque, a Portuguese military chief in Goa wished to establish a contact with Malacca. A Portuguese mission under Lopez Squeira in 1509 arrived in Malacca in order to establish trade links with Malacca. However, the Malacca rulers were reluctant to welcome them and even assaulted the Portuguese arriving in di Malacca. Ultimately under the direct command of the Portuguese Military Chief, Affonso d'Albuquerque, Portuguese managed to occupy Malacca in 1511. They hoped that by controlling Malacca they would grab the whole pepper trading in Asia. But they dashed their hope as Malacca did not produce any export commodities, including pepper they had been searching thus far. But Malacca was simply an emporium that played the role as a transit port for the traders in Asian territories.

After having controlled Malacca, the Portuguese traders continued their exploration to the Molucca Islands, precisely to Banda island that served as the place to gather and stock spices in Molucca Islands. In Banda, the Portuguese found nutmeg, clover and mace. They exchanged spices with the fabric from India. Under such

circumstance, busy trading activities began to emerge in Banda. In 1521, the Spaniards arrived with two ships through the Philippines and North Borneo to the Molucca Islands, namely Tidore, Bacan, and Jailolo. Their arrival was warmly welcome, when they returned some of them decided to stay in Tidore, but they were assaulted by the Portuguese. The Portuguese was not happy with the arrival of the Spaniards to Molucca Islands as they did not want other European nations to become their trading monopoly competitors over there. However, as a result of the positive attitude demonstrated by the Spaniards, the Molucca Islands were in favor of the Spaniards over the Portuguese. As a result, the Spanish ships continued to visit Molucca Islands until 1534. However, due to the treaty reached with the Portuguese from 1534, the Spanish left Molucca Islands and the Portuguese obtained the full liberty to exert spices trading monopoly in Molucca Islands.

From the end of the 16th and 17th centuries, the Dutch, British, Danish and French traders took the turn to arrive in the archipelago. Specifically, the motives behind the arrival of the Dutch were economic reason and adventure. In 1585, when the Portuguese penetrated the Spanish trading territories, the role of the Dutch as the transporter and distributor of spices in Europe was halted.

As the Dutch lost this livelihood, the Dutch decided to acquire spices directly from the Indonesian archipelago. In 1595, the Dutch fleet comprised four merchant ships and sailed for the first time to Dutch Indies led by Cournelis de Houtman. The fleet arrived in Banten in 1596. As the Dutch expected huge profit, their request for big amount of pepper but with less payment led to a tension between the Dutch and the Banten traders. The Dutch felt offended and left Banten while firing cannon balls to Banten city. The news about this notorious arrogance spread quickly to the entire northern coast of Java. As a result, the Dutch experienced problems establishing trade links. The Dutch first fleet sailed up to Bali only and in 1597, they returned to the Netherlands bringing abundant spices.

In the following year, namely in 1598, the second Dutch fleet led by Jacob van Neck, Waerwijck, and Heemskerck arrived in Banten and were warmly welcome by the native rulers. This was so because Banten had just experienced losses as the Portuguese and the Dutch were able to tune their attitudes with the Banten people. The arrival of the Dutch traders in Tuban and Molucca Islands were also warmly welcome by the local rulers. The Dutch dropped by to every island in Molucca Islands, and they assigned their trusted men to gather the harvested spices. The Dutch arrival to Ternate was also favorably welcome as the Sultan of Ternate was then against the Portuguese and the Spaniards. In this way, the Dutch fleets managed to return to their homeland with the ships loaded with spices and the traders made enormous profit.

In March 1602, upon a tough negotiation between the *Staten General* (Representative Council) with the firms in the Netherlands (*Holland dan Zeeland*), the Dutch government set up *Vereenidge Oost Indische Compagnie* (VOC) pursuant to the parliament’s exclusive right which granted the previledge to the companies to trade, sail and rule the territories from the Cape of Hope until the Salomon Islands. In carrying out its trade missions, VOC was awarded the exclusive right to acquire the East territories, signed peace agreements, enter into agreements, declare war, own war ships, own soldiers and build their own fortresses.

The main goal of setting up VOC as reflected from the negotiation held on 15 January 1602 was "to inflict disaster to the enemies and ensure security in the homeland". The enemies referred to the Portugal and Spain which from June 1580-December 1640 were united as a force to seize the trade domination in Asia. For the time being, the Dutch, via VOC, forged good relationship with people of the archipelago.

Soon after J.P. Coen was appointed Governor General of VOC, the political directions of the Dutch became obvious. They were not only focuses on trade only but engaged in the trading monopoly and exerted power politics against the kingdoms throughout the archipelago. Five years before becoming the Governor General (1614), J.P. Coen was of the opinion that the trade in Asia had to be carried out and maintained with protection and arm support paid by the trade earnings. According to Coen, trade could not be maintained without waging battles, neither a battle or war could be maintained without trade.

Finally, in March 1619, VOC under the Governor General, J.P. Coen took over Jayakarta from the power of Prince Wijayakrama to consolidate his position upon totally destructed the city and later built Batavia over the rubbles of Jayakarta. With his virtual grip of Jayakarta, J.P. Coen moved his VOC trading head office from Ambon to Batavia. From this time on Batavia served as the major VOC headquarters. This was the most significant achievement of the Dutch as later on from Batavia, VOC managed to built its military and administration center in a relatively safe location for trade and exchange of goods with easy access to trade routes in the eastern parts of the archipelago, Far East and Europe. By December 1650, VOC owned 74 merchant ships all over Asia region. This armada apparently outnumbered that of its competitors, namely the British, Portuguese and Spain. VOC's merchant ships were relatively better armed compared to those of other nations. As a result, the Dutch ships were capable of doing more tremendous maneuvers.

As from the 15th century, it could be concluded that nearly all trade transactions in Java were carried out in the Chinese *cash* currency. It was thought that the Ming Dynasty's strong armada under Admiral Cheng Ho had made the Chinese currency popular and widely acceptable in the other island ports such as Malacca and Pasai in the early 15th century. Afterwards, the lifting of the Emperor's ban of the Chinese trading to the South in 1567 contributed to the massive penetration of these Chinese brass coins. Apparently, the large circulation of the currency made the Chinese officials feel apprehensive. As a result, in Guangdong and Fujian, they made new coins made of brass mixed with tin which were cheaper and circulated them. In 1596, the first Dutch armada discovered that lower quality *picis* was in circulation up to the interior parts of Java.

Due to its lower quality, these *picis* coins made from mixed tin were easily counterfeited. In 1633, when the Dutch (VOC) began to find out that the *picis* coins could be obtained from the Chinese in Batavia, they were aware that in Java there had been *picis* coin manufacturing, mainly in Banten, Cirebon and Jepara. The Dutch took the advantage of such activity by supplying the basic tin through a monopoly trade to the prominent Chinese in the territories controlled by the Dutch. Such VOC's easy profit taking was halted when the British managed to provide tin in a much lower price. Later VOC shifted to brass coins as their basic currency to penetrate the Asian economy. To protect the Chinese *kepeng* coins, in 1727 (or a span from 1728-1751), VOC circulated *Duit* coins as the valid payment instrument to replace

picis/cash. According to some historical records, the period of *picis* usage that the Dutch initiated proved extremely vital to build Batavia as an attractive port for the archipelago seamen wishing to own *picis* and merchandise from China.

Furthermore, the arrival of the Europeans in the 16th century added the number of currencies circulated in the archipelago. Consequently, the role of the local currencies were diminished as they lacked clear benchmark and control. One of the most preferable western currencies was the Spanish *Real* (*Spaanse Matten*). By the 17th century, no local currencies could match the Spanish *Real* as the international currency. Soon Spanish *Real* effectively became the money with unit rates for international transactions. In a letter from the Governor General and the VOC Board in Batavia addressed to Holland dated 12 February 1685, the Governor General was requesting for as much as 350,000 up 400,000 gulden comprising Mexican eight real/Spanish *Real* because the people in Java, Sumatra and surrounding islands were in favor of the coins as they were already accustomed to them for years.

VOC that was trying hard to exert trading monopoly in the archipelago applied for permission the King of Holland to print new *real* coins with the same size, weight and carat to match the popularity of Spanish *Real*. Around the early period of the 18th century, the Spanish *Real* was hard to find as its position began to diminish. The VOC took an advantage of the situation and made the Dutch silver coins, *Rijksdaalder* as standard payment instrument in the archipelago. As a matter of fact, the VOC in Batavia did not have its own currency. Printing money was the exclusive right of VOC of which its implementation was rigorously controlled by the *Staten Generaal*. In 1644-1645, when emergency currency from bass and silver was printed, Heeren the 17th instructed its immediate withdrawal. With such exception, and apart from medals, VOC did not print coins in East Indies until 1744 when it ultimately set up a mint to produce coins in Batavia. This triggered a chaos of money circulation and affected the entire VOC's activities. Various currencies including Spanish *Real* in unlimited amount were printed with respective denominations. This often sparked difference of opinions between Heeren the 17th and the Governor General with the Board in Batavia concerning the discrepancy determined by the same regime.

By the end of the 18th century, VOC began to undergo degradation. A number of its monopolies in the many locations collapsed. The Dutch Government then began to investigate the VOC's conditions and disclosed signs of bankruptcy, rampant scandals and mismanagement in many aspects. From December 1794-January 1795, France troops invaded Holland and managed to create a puppet French government. Subsequently on 1 January 1800, VOC was liquidated followed by the dissolution of the VOC's board council under Heeren the 17th in Amsterdam. From then on, the VOC's power became the Dutch Government's colonized territory.

In 1807, Herman William Daendels was sent to Batavia to become the Governor General of East Indies. His missions were to reorganize the administration, revamp the economy and maintain Java from the British assaults. Daendels experienced government's cash flow problem as inherited by VOC and the financial condition was critical. He tried to borrow 736,000 *Rijkdaalder* to improve the economic condition of East Indies, but his attempts proved futile as it only increased the amount of the currency in circulation. Meanwhile, the government's treasury that had been supposed to guarantee the money dried up. Daendels was considered underperformed and was later replaced by Janssen who handed over East Indies to Britain.

Afterwards in 1811, Sir Thomas Stamford Raffles came to East Indies as the Lieutenant General following his appointment by the Queen of England. Under his administration, he withdrew Rijksdaadler banknotes worth 8.5 million from circulation. The withdrawn money was considered as the government's loan and guaranteed with silver. He revived the Spanish *Real* as the silver and gold standard. In 1813, Spanish *Real* was replaced with *Ropij Jawa* banknotes printed in Surabaya. Yet, Raffles did not for long in East Indies (1811-1815). As the war against France (Napoleon) ended, Britain and Holland reached a deal whereby all the territories of East Indies would be returned to the Dutch. As a result, Raffles had to leave his post before he could demonstrate the outcome of his work.

Since that transition of power, East Indies had been called the Dutch Indies and ruled by the Commissioners General (1815-1819) made up of Elout, Buyskes and van der Capellen. Sometime in this period, namely in 1817, the Dutch rulers emitted new currency to replace the *Ropij Jawa*, namely the Dutch Indies Gulden expressed in "*ƒ*" which means *florin* or *gulden*. The Dutch Indies' economic activities during this administration faced difficulties without sufficient banking facilities. In conducting export-import links between the Dutch Indies and the Netherlands, they need gold and silver the cover the deficit in the balance of trade. The Dutch Indies administration had to bring in gold and silver from the Netherlands to meet the needs, and such would easily take place with the banking facilities.

The Commissioner General, Leonard Pierre Joseph Burgraaf Du Bus de Gisignies in his Colonization Report reiterated that the Javanese export value then was extremely low compared to that of other Dutch colonies. As a result, the Javanese export value could not keep pace with its import value, worse the people's level of income was so low that they could not afford paying imported goods in cash. To address this problem, Du Bus adopted two policies, namely substituting the communal ownership system with the individual system to encourage the people to work, earn money and use more capital than human beings. Consequently, the government had to attract foreign investment from Western Europe. The policy of 'using more capital than human beings" introduced by Du Bus eventually led to the birth of liberal economic idea, namely "the Dutch Indies colonization with capital". This policy sparked the need for the presence of modern banking institution in Dutch Indies.

De Bank van Leening and De Bankcourant en Bank van Leening

In fact, the banking institution in Dutch Indies had existed from the period of VOC, namely from 1743-1750. VOC was then managed by Governor General Van Imhoff who made the trading condition in Europe as the model of running the administration in Dutch Indies, although most of its actual conditions portrayed different realities. As a result, many of the regulations were outdated and not applicable. In August 1746, the government set up a trading board to cope with many issues, such as reaching trade agreements with the private sector which had to be urgently handled. The board comprised seven persons who were authorized to manage Bank van Leening which was incorporated on 20 August 1746.

Like any other bank of that period, Bank van Leening's activity was not more than a pawn house which extended loans with guarantee in the form of gold, silver, precious stones, merchandise, fabric, household appliance with medium size and value or similar items. The bank's capital comprised 300 share certificates, each having the nominal value of 1,000 ringgit. 200 of the share certificates belonged to

the government and the rest was owned by the other parties. By 1 December 1746, this bank began to operate albeit slowly due to its limitation in trading affairs.

In its development, Bank van Leening was confronted with difficulty in raising its capital. This was due to unhealthy competition with VOC officials who were abusing their wealth by imposing high interest. This practice made the bank services looked unattractive and capital raising stagnate. The condition was further aggravated as the bank had to deposit part of its capital to the VOC Administration.

To overcome these problems, the Dutch Indies Administration pursuant to article 1 of the Regulation of Bank van Leening upgraded the bank's status to a draft bank. Based upon the agreement reached in the Board's Meeting dated 2 June 1752, they planned to set up a new financial institution, namely Bank Courant. This new bank was opened on 1 September 1752 and further based on the agreement reached on 5 September 1752, the bank was merged with Bank van Leening into De Bankcourant and Bank van Leening. With the presence of this bank, VOC officials were able to deposit their money and earned interest to facilitate their capital administration.

By this time, the bank began to play a meaningful role, albeit small, in the trade sector as certificates of deposit or bank certificates were fact circulated as bank notes and attracted business people because they could be cashed in at any time. With such a role, De Bankcourant and Bank van Leening paved the way for De Javasche Bank in the following century. However, as the predecessor, De Bankcourant and Bak van Leenning had to endure more challenges. Unfortunately, the VOC Administration did not show its genuine will by offering any help though it was fully aware of the causes.

Finally, in 1790 the bank treasury was short of 63,000 *Ringgit* and the VOC Administration thought that they had to do something this time and issued a decree dated 5 April 1794 to close the bank. VOC took over the bank and announced that banknotes in circulation would be exchanged within two months. Since that day, Bankcourant and Bank van Leening was virtually non-existent though under Governor General, Herman William Daendels (1808-1811) the bank was reopened on 14 June 1809.

During the transitional government under the British rule from 1811-1816, the bank was authorized to circulate money, but it totally failed as it lacked cash to meet the bank's obligations. The creditors were forced to accept payment in the form of coffee beans, rice and so on. As a result, pursuant to article 7 of the Supplementary Convention with Britain dated 24 June 1817, the bank was taken over by the Dutch Government which later announced on 27 January 1818 that the people could exchange their banknotes up to 18 June 1818 as afterwards the banknotes would be worthless. Further, the Government declared that the bank was closed down